

106TH CONGRESS  
1ST SESSION

**S.** \_\_\_\_\_

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IN THE SENATE OF THE UNITED STATES

Mr. ENZI introduced the following bill; which was read twice and referred to  
the Committee on \_\_\_\_\_

**A BILL**

To foster innovation and technological advancement in the  
development of the Internet and electronic commerce,  
and to assist the States in simplifying their sales and  
use taxes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Internet Tax Morato-  
5       rium and Equity Act”.

6       **SEC. 2. FINDINGS.**

7       Congress makes the following findings:

8               (1) The moratorium of the Internet Tax Free-  
9       dom Act on new taxes on Internet access and on

1 multiple and discriminatory taxes on electronic com-  
2 merce should be extended.

3 (2) States should be encouraged to simplify  
4 their sales and use tax systems.

5 (3) As a matter of economic policy and basic  
6 fairness, similar sales transactions should be treated  
7 equally, without regard to the manner in which sales  
8 are transacted, whether in person, through the  
9 mails, over the telephone, on the Internet, or by  
10 other means.

11 (4) Congress may facilitate such equal taxation  
12 consistent with the United States Supreme Court's  
13 decision in *Quill Corp. v. North Dakota*.

14 (5) States that adequately simplify their tax  
15 systems should be authorized to correct the present  
16 inequities in taxation through requiring sellers to  
17 collect taxes on sales of goods or services delivered  
18 in-state, without regard to the location of the seller.

19 (6) The States have experience, expertise, and  
20 a vital interest in the collection of sales and use  
21 taxes, and thus should take the lead in developing  
22 and implementing sales and use tax collection sys-  
23 tems that are fair, efficient, and non-discriminatory  
24 in their application and that will simplify the process  
25 for both sellers and buyers.

1           (7) Online consumer privacy is of paramount  
2           importance to the growth of electronic commerce  
3           and must be protected.

4   **SEC. 3. EXTENSION OF INTERNET TAX FREEDOM ACT MOR-**  
5                           **ATORIUM.**

6           Section 1101(a) of the Internet Tax Freedom Act (47  
7   U.S.C. 151 note) is amended to read as follows:

8           “(a) MORATORIUM.—No State or political subdivision  
9   thereof shall impose—

10           “(1) any taxes on Internet access during the  
11   period beginning after September 30, 1998, unless  
12   such a tax was generally imposed and actually en-  
13   forced prior to October 1, 1998; and

14           “(2) multiple or discriminatory taxes on elec-  
15   tronic commerce during the period beginning on Oc-  
16   tober 1, 1998, and ending on December 31, 2005.”.

17   **SEC. 4. INTERNET TAX FREEDOM ACT DEFINITIONS.**

18           (a) INTERNET ACCESS SERVICES.—Section 1104 of  
19   the Internet Tax Freedom Act (47 U.S.C. 151 note) is  
20   amended by adding at the end the following new para-  
21   graph:

22           “(11) INTERNET ACCESS SERVICES.—The term  
23   ‘Internet access services’ means services that com-  
24   bine computer processing, information storage, pro-  
25   tocol conversion, and routing with transmission to

1 enable users to access Internet content and services.  
2 Such term does not include receipt of such content  
3 or services.”.

4 (b) INTERNET ACCESS.—Section 1104(5) of the  
5 Internet Tax Freedom Act (47 U.S.C. 151 note) is amend-  
6 ed by striking “telecommunications services.’ and insert-  
7 ing “telecommunications services generally, but does in-  
8 clude wireless web access services used to enable users to  
9 access content, information, electronic mail, or other serv-  
10 ices offered over the Internet, including any comparable  
11 package of services offered to users.”.

12 (c) TELECOMMUNICATIONS SERVICES.—Section  
13 1104(9) of the Internet Tax Freedom Act (47 U.S.C. 151  
14 note) is amended by striking “and includes communica-  
15 tions services (as defined in section 4251 of the Internal  
16 Revenue Code of 1986)”.

17 (d) WIRELESS WEB ACCESS SERVICES.—Section  
18 1104 of the Internet Tax Freedom Act (47 U.S.C. 151  
19 note), as amended by subsection (a), is amended by adding  
20 at the end the following new paragraph:

21 “(12) WIRELESS WEB ACCESS SERVICES.—The  
22 term ‘wireless web access services’ means commer-  
23 cial mobile services (as defined in section 332(d)(1)  
24 of Communications Act of 1934 (47 U.S.C.  
25 332(d)(1)), multi-channel, multi-point distribution

1 services, or any wireless telecommunications services  
2 used to access the Internet.”.

3 **SEC. 5. STREAMLINED SALES AND USE TAX SYSTEM.**

4 (a) DEVELOPMENT OF STREAMLINED SYSTEM.—It is  
5 the sense of Congress that States and localities should  
6 work together to develop a streamlined sales and use tax  
7 system that addresses the following in the context of re-  
8 mote sales:

9 (1) A centralized, one-stop, multi-state report-  
10 ing, submission, and payment system for sellers.

11 (2) Uniform definitions for goods or services,  
12 the sale of which may, by State action, be included  
13 in the tax base.

14 (3) Uniform rules for attributing transactions  
15 to particular taxing jurisdictions.

16 (4) Uniform procedures for—

17 (A) the treatment of purchasers exempt  
18 from sales and use taxes; and

19 (B) relief from liability for sellers that rely  
20 on such State procedures.

21 (5) Uniform procedures for the certification of  
22 software that sellers rely on to determine sales and  
23 use tax rates and taxability.

24 (6) A uniform format for tax returns and re-  
25 mittance forms.

1           (7) Consistent electronic filing and remittance  
2 methods.

3           (8) State administration of all State and local  
4 sales and use taxes.

5           (9) Uniform audit procedures, including a pro-  
6 vision giving a seller the option to be subject to no  
7 more than a single audit per year using those proce-  
8 dures; except that if the seller does not comply with  
9 the procedures to elect a single audit, any State can  
10 conduct an audit using those procedures.

11          (10) Reasonable compensation for tax collection  
12 by sellers.

13          (11) Exemption from use tax collection require-  
14 ments for remote sellers falling below a de minimis  
15 threshold of \$5,000,000 in gross annual sales.

16          (12) Appropriate protections for consumer pri-  
17 vacy.

18          (13) Such other features that the States deem  
19 warranted to promote simplicity, uniformity, neu-  
20 trality, efficiency, and fairness.

21       (b) NO UNDUE BURDEN.—Congress finds that, if  
22 adopted, the system described in subsection (a) will not  
23 place an undue burden on interstate commerce or burden  
24 the growth of electronic commerce and related tech-  
25 nologies in any material way.

1       (c) STUDY.—It is the sense of Congress that a joint,  
2 comprehensive study should be commissioned by State and  
3 local governments and the business community to deter-  
4 mine the cost to all sellers of collecting and remitting  
5 State and local sales and use taxes on sales made by sell-  
6 ers under the law as in effect on the date of enactment  
7 of this Act and under the system described in subsection  
8 (a) to assist in determining what constitutes reasonable  
9 compensation.

10 **SEC. 6. INTERSTATE SALES AND USE TAX COMPACT.**

11       (a) AUTHORIZATION AND CONSENT.—In general, the  
12 States are authorized to enter into an Interstate Sales and  
13 Use Tax Compact. Subject to subsection (c), Congress  
14 consents to their entry into that Compact. The Compact  
15 shall describe a uniform, streamlined sales and use tax  
16 system consistent with section 5(a), and shall provide that  
17 States joining the Compact must adopt that system.

18       (b) EXPIRATION.—The authorization and consent in  
19 subsection (a) shall expire if the Compact has not been  
20 formed before January 1, 2006.

21       (c) CONGRESSIONAL CONSENT WITHDRAWN IF COM-  
22 PACT DISAPPROVED.—

23           (1) ADOPTING STATES TO TRANSMIT.—Upon  
24 the 20th State becoming a signatory to the Com-

1 pact, the adopting States shall transmit a copy of  
2 the Compact to Congress.

3 (2) CONGRESSIONAL ACTION.—The consent of  
4 Congress to the Compact is withdrawn if Congress,  
5 by law, disapproves the Compact within 120 days  
6 (computed in accordance with section 154 of the  
7 Trade Act of 1974 (19 U.S.C. 2194)) after the  
8 adopting States transmit the Compact to Congress.

9 **SEC. 7. AUTHORIZATION TO SIMPLIFY STATE USE-TAX**  
10 **RATES THROUGH AVERAGING.**

11 (a) IN GENERAL.—Subject to the exception in sub-  
12 section (c), a State that adopts the Compact authorized  
13 under section 6 and that levies a use tax shall impose a  
14 single, uniform State-wide use-tax rate on all remote sales  
15 on which it assesses a use tax for any calendar year for  
16 which the State meets the requirements of subsection (b).

17 (b) AVERAGING REQUIREMENT.—A State meets the  
18 requirements of this subsection for any calendar year in  
19 which the single, uniform State-wide use-tax rate is in ef-  
20 fect if such rate is no greater than the weighted average  
21 of the sales tax rates actually imposed by the State and  
22 its local jurisdictions during the 12-month period ending  
23 on June 30 prior to such calendar year.

24 (c) ANNUAL OPTION TO COLLECT ACTUAL TAX.—  
25 Notwithstanding subsection (a), a remote seller may elect



1 annually to collect the actual applicable State and local  
2 use taxes on each sale made in the State.

3 **SEC. 8. AUTHORIZATION TO REQUIRE COLLECTION OF USE**  
4 **TAXES.**

5 (a) GRANT OF AUTHORITY.—

6 (1) STATES THAT ADOPT THE SYSTEM MAY RE-  
7 QUIRE COLLECTION.—Any State that has adopted  
8 the system described in the Compact is authorized,  
9 notwithstanding any other provision of law, to re-  
10 quire all sellers not qualifying for the de minimis ex-  
11 ception to collect and remit sales and use taxes on  
12 remote sales to purchasers located in such State  
13 after the expiration of the 120 day period described  
14 by section 6(c)(2) unless the Compact is disapproved  
15 under section 6(c).

16 (2) STATES THAT DO NOT ADOPT THE SYSTEM  
17 MAY NOT REQUIRE COLLECTION.—Paragraph (1)  
18 does not extend to any State that does not adopt the  
19 system described in the Compact.

20 (b) NO EFFECT ON NEXUS, ETC.—No obligation im-  
21 posed by virtue of authority granted by subsection (a)(1)  
22 or denied by subsection (a)(2) shall be considered in deter-  
23 mining whether a seller has a nexus with any State for  
24 any other tax purpose. Except as provided in subsection  
25 (a), nothing in this Act permits or prohibits a State—

- 1 (1) to license or regulate any person;
- 2 (2) to require any person to qualify to transact
- 3 intrastate business; or
- 4 (3) to subject any person to State taxes not re-
- 5 lated to the sale of goods or services.

6 **SEC. 9. NEXUS FOR STATE BUSINESS ACTIVITY TAXES.**

7 It is the sense of Congress that before the conclusion  
8 of the 107th Congress, legislation should be enacted to  
9 determine the appropriate factors to be considered in es-  
10 tablishing whether nexus exists for State business activity  
11 tax purposes.

12 **SEC. 10. LIMITATION.**

13 In general, nothing in this Act shall be construed as  
14 subjecting sellers to franchise taxes, income taxes, or li-  
15 censing requirements of a State or political subdivision  
16 thereof, nor shall anything in this Act be construed as af-  
17 fecting the application of such taxes or requirements or  
18 enlarging or reducing the authority of any State or polit-  
19 ical subdivision to impose such taxes or requirements.

20 **SEC. 11. DEFINITIONS.**

21 In this Act:

- 22 (1) STATE.—The term “State” means any
- 23 State of the United States of America and includes
- 24 the District of Columbia.

1           (2) GOODS OR SERVICES.—The term “goods or  
2           services” includes tangible and intangible personal  
3           property and services.

4           (3) REMOTE SALE.—The term “remote sale”  
5           means a sale in interstate commerce of goods or  
6           services attributed, under the rules established pur-  
7           suant to section 5(a)(3), to a particular taxing juris-  
8           diction that could not, except for the authority  
9           granted by this Act, require that the seller of such  
10          goods or services collect and remit sales or use taxes  
11          on such sale.

12          (4) LOCUS OF REMOTE SALE.—The term “par-  
13          ticular taxing jurisdiction”, when used with respect  
14          to the location of a remote sale, means a remote sale  
15          of goods or services attributed, under the rules es-  
16          tablished pursuant to section 5(a)(3), to a particular  
17          taxing jurisdiction.